trend have to some extent at least been compensatory, and constant rates of interest have therefore represented fairly constant debt burdens over a period of years. In such circumstances the rough justice of the result was satisfactory to both mortgagor and mortgagee. Moreover, relatively constant rates of interest in relatively stable price conditions meant both simplicity of contracts and security of finance.

The events of the past few years have shown that rigid interest-rates combined with a steep fall in commodity prices cause extreme hardship and endanger the economic structure of farming. Farming has been the first industry to receive the impact of falling prices, and, on account of the large proportion of its capital which is fixed and the comparative slowness of its turnover, has had most difficulty in making adequate and rapid adjustments. The disparity between interest charges and gross income has consequently been more marked and more burdensome in the case of farming than in the case of most other enterprises; and, despite the relief given through exchange depreciation and statutory reductions of interest, the continued fall in prices, particularly in those of dairy-produce, has made the economic position of farmers more serious than before.

121. Disparity in Interest Rates:

A further disparity is apparent. The margin between the rates of interest payable on first-class rural mortgage advances and the interest yield of gilt-edged securities has widened considerably. Similarly, the margin between bank-deposit rates and overdraft rates (which affect the rates charged on chattel securities) is wider than previously. This is indicative partly of the reluctance or inability of private and State lending institutions to make adequate adjustments to meet the situation and partly of lack of confidence in rural investment generally. Over a wide area of rural finance a vicious circle has been set up wherein falling prices and relatively rigid interest-rates have led to a reduced net income, this to a depreciation of the security, this to a firming of interest-rates, and this to a further depreciation of the security. The essential trouble here is that financial institutions have found themselves unable to take the initiative in an attempt to preserve the security through lowering interest charges, but have preferred (in some cases have been compelled) to adopt a policy of passive resistance.

122. Amortization:

Another important weakness of the present credit system is the prevalence, outside the State and some of the larger private lending institutions, of the flat type of land mortgage. The evidence placed before the Commission is conclusive as to the superiority, from the borrower's point of view, of the amortizable type of loan. Such loans are normally for longer periods than flat mortgages, and they therefore avoid frequent and often costly renewals; they provide a form of contractual saving which progressively increases the farmer's equity in his land and protects him from the full effects of a fall in commodity prices; they enable the loan to be paid out of income without undue hardship if the period of amortization is sufficiently long: and where additional instalments may be paid at any time they enable the farmer to use small surpluses to reduce his loan or to make advance payments as an insurance against lean years. From the point of view of the lender, amortization progressively widens the margin of security in periods of stable prices and protects it wholly or partly in periods of falling prices.

Amortizable loans, however, are not a convenient form of advance for private lenders or small lending institutions owing to the inconvenience of reinvesting the small instalments periodically accruing, and the difficulty of devising an adequate method of supervising their securities over long periods. Large institutions can meet both difficulties readily enough, but the private investor dislikes both the inconvenience and remoteness of control involved in amortization. For these reasons amortizable loans have found little favour outside the State and some of the larger private lending institutions. Moreover, it is unlikely that private funds will be successfully tapped for rural investment on an amortizable basis until there exists a suitable rural mortgage institution with powers to issue bonds against the collective security of farm lands.

Amortization may be subject to two other disadvantages. In the first place the loan may be for a comparatively short period, in which case the periodical instalments will prove burdensome in periods of falling prices. In the second place, the rate of interest fixed on a long loan may cease to bear a normal relation to rates of interest charged on the renewal of flat mortgages. Both these possibilities have been realized in practice, and both need consideration in any contemplated adjustments in the credit system.

123. Finance by Dairy Companies:

A special problem is presented in the financing of dairy-farmers by co-operative dairy companies. In most dairying districts there are finance companies which make advances to farmers upon mortgage and chattel security, but in some cases farmers are also financed by co-operative dairy companies, either directly or by finance companies which are off-shoots of co-operative dairy companies. Such companies may employ the facilities provided by the Rural Intermediate Credit Board.

Co-operative dairy companies adopt no uniform practice in financing dairy-farmers. The matter is governed by the provisions of the memorandum and articles of association of individual companies, which may or may not provide the necessary authority, and by the policy decided upon by the directors of each company. Even where the memorandum or articles of association provide no authority for financing farmers, a provision in the Rural Intermediate Credit Act nevertheless permits a company to enter into guarantees. Generally, however, the scope of the authority of the directors is wide enough to permit the company to engage in financial operations, and some co-operative companies have made a practice of accepting moneys on deposit for the purpose of providing the necessary funds.